

FAST FACTS

- ◆ Some auto dealers claim that you can save money by financing a car rather than paying cash.
- ◆ You may be shown a computer printout that compares financing at one rate and investing the cash not spent in a certificate of deposit (CD) at a lower rate.
- ◆ The comparison leaves out a crucial point when you pay cash, you have no monthly payments.
- ◆ Paying interest on a loan always costs more unless you can invest your cash at an interest rate higher than the loan rate.
- ◆ There may be good reasons to finance rather than pay cash, saving money usually isn't one of them.

When buying a car, don't be misled by cost comparisons between financing and paying cash. Many car dealers now use fancy computer printouts to show that financing a car is a better deal than paying cash for it.

Beware.... The numbers may look good, but the bottom line isn't. Although there may be good reasons to finance a car or other expensive items, it's not usually because it saves money.

Be skeptical, then, if an auto dealer claims that financing costs you less than paying cash.

Information telling the whole story may be missing.

HOW MUCH WILL IT COST?

The Federal Trade Commission (FTC) has taken action against a company that distributed computer software used to misrepresent the "savings" of financing versus paying cash for a car. Many auto dealerships across the country may be using similar software.

The computerized cost comparison seems to "prove" you can save money by financing at one rate and investing the cash not spent in a certificate of deposit (CD) at a lower rate.

But can you really come out ahead by borrowing at one rate and investing at a lower rate? **No!** This comparison leaves out a crucial point.

When you pay cash, you have no monthly payments to make. If each month you invest an amount equal to the car payment, the total you accumulate will be more than the value of the CD described above.

In the end, paying interest on a loan always costs you more unless you can invest your cash at an interest rate higher than the loan rate.

WHY FINANCE YOUR CAR OR OTHER PURCHASES?

You may, however, find it advantageous to finance your car. Many car buyers prefer

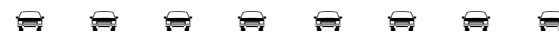
taking out loans to paying cash for any of the following reasons.

- ◆ You may need your cash for other purposes, such as paying for other products or services, maintaining a better cash flow, or building a "cash cushion" for such things as emergencies or college tuition.
- ◆ You may be able to buy a more expensive car by using financing.
- ◆ Under some circumstances, if you finance a car that develops serious problems, you may not have to continue making payments.
- ◆ Some people would rather have to make monthly payments than use their own money because they would be lax in paying themselves back.

Be aware, however, that car salesmen may be earning commissions when they convince you to finance a car through their dealership.

When a dealer assigns a contract to a bank or finance company, that creditor often gives the dealer a portion of the finance charge called a "dealer reserve." You may be able to get a lower interest rate if you secure your own financing through your local bank or credit union.

THINK CAREFULLY ABOUT ANY CLAIMS THAT FINANCING A CAR CAN SAVE YOU MONEY.



The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

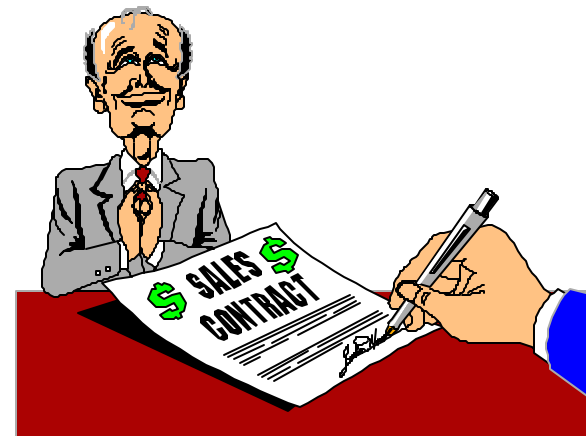
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CAR FINANCING SCAMS



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